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ABSTRACT

This report presents the results of a telephone survey conducted in 1997 and 1998 of the 50 State Higher Education Finance Officers in regard to performance budgeting and performance funding of public higher education. It was found that 21 states used some form of performance budgeting in public higher education in 1998, up from 16 in 1997, and that 13 states used some form of performance funding in public higher education in 1998, up from 10 in 1997. The 1998 survey indicated that half of the states employed at least one of the two funding programs, and that 11 more were considering adopting such programs in the next 5 years. Eight states had both performance budgeting and performance funding in 1998, and 14 more were considering adopting both programs in the next 5 years. The report also notes that performance funding is becoming less comprehensive and more circumscribed in its goals, and that state mandates and prescriptions are declining, allowing coordinating boards, with campus participation, to initiate less ambitious funding programs. (MDM)

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ROCKEFELLER REPORTS

The Nelson A. Rockefeller Institute of Government
State University of New York

July 24, 1998

Funding Public Higher Education For Results: Fad Or Trend? Results From the Second Annual Survey

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Public Higher Education Program

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Abstract

Our second annual survey of State Higher Education Finance Officers in the fifty states shows that more states are linking campus budgets to institutional performance. Traditionally, states based their allocations to public campuses primarily on current costs, student enrollment, and inflationary increases. These input factors say nothing about the quantity and quality of graduates or the research and service to states and citizens. Both performance funding — with its tight tie to funding — and performance budgeting — with its close link to budgets — connect resources to results. They tilt the budget question from what states should do for their campuses toward what campuses should do for their states. The second survey shows that half of the states currently have at least one of these programs and suggests that 70 percent are likely to have one of them in the next five years. States have always provided up-front funding to encourage desired results. Now, more are linking resources to achieved rather than promised performance.

Introduction

As states increase funding for public colleges and universities, more have programs linking resources to results. These developments send a double message. Public higher education is essential to state interests, but it should become more efficient and effective in meeting student and state needs. To track the development of programs coupling budgets with performance, we surveyed by telephone State Higher Education Finance

Officers (SHEFOs) in 1997 and 1998. Our second survey shows more states have programs connecting resources to results than in 1997; and even more are considered likely to adopt this practice in the next five years.

As noted in our first *Rockefeller Report*, this practice represents a departure from traditional budgeting for public colleges and universities. Traditionally, states funded public campuses based largely on current costs, inflationary increases, and student enrollments. These input factors reflect what institutions require in state funding rather than what states desire from public campuses. Traditional budgeting ignored critical outputs and outcomes, such as the quantity and quality of college graduates or the research and service provided to states and their citizens. The newer approach links tax support to institutional results on priority indicators that reflect student and state needs. It tilts the budget question from what states should do for their campuses toward what campuses should do for their states. States have long provided funding up front to encourage desired results. The newer approach provides funding for achieved, rather than promised, results.

Performance Funding and Performance Budgeting

Funding for results takes two different forms, performance funding and performance budgeting. In performance funding, separate, and usually small allocations are tied directly to the institutions' results, normally on a limited list of performance indicators. In performance budgeting, governors and legislators or coordinating boards of higher education consider indirectly institutional performance — usually on a longer list of indicators — as a general context when determining the total budgets of public colleges and universities.

The advantages and disadvantages of each are the reverse of the other. In performance funding, the tie between results and resources is clear but inflexible. In performance budgeting, the link is flexible but unclear. In performance funding, the tight tie between resources and results enhances the incentive to improve performance. However, its automatic allocation of funding may punish campuses where performance falls because of circumstances beyond their control. The small sums usually allocated to performance funding also limit the number of indicators, since many measures would trivialize important objectives with trifling sums. The loose link in performance budgeting gives state governments or coordinating boards the discretion to raise or lower institutional budgets based on performance, which allows consideration of campus circumstances and mitigating factors. It also permits the use of a longer list of performance indicators, which can include more of the many objectives of public colleges and universities. On the downside, this loose link of resources to results diminishes the incentive for institutions to improve performance. These alternate advantages and disadvantages may explain why more states are adopting both programs, as a way to acquire their strengths and avoid their shortcomings.

More states prefer performance budgeting, with its loose link to budgeting, than performance funding, with its tight tie to funding. Performance budgeting grows for public colleges and universities, as more states adopt this practice for all or most of their agencies and services. The National Association of State Budget Officers called performance-based budgeting "the most significant trend in state budgeting" in 1997 and 1998. Our Second Survey reveals that more states are adopting both performance funding and performance budgeting for their public colleges and universities. It also indicates that the newest efforts at performance funding impose fewer state mandates and prescriptions in legislation and allow coordinating boards, in cooperation with campuses, to develop less ambitious but more acceptable programs.

Survey Results

Both programs have increased since the 1997 Survey. The vagueness of the concept of performance budgeting apparently confused the respondents last year. They indicated only eight states had performance budgeting. Our 1998 survey shows that 16 states should have been listed in 1997. Five new programs of performance budgeting have appeared since the 1997 Survey. Performance funding increased from 10 programs to 13 this year. But it exhibited considerable volatility, with two states ending and five states adding the program. These changes confirm our conclusion in the last *Rockefeller Report* that "the desirability of performance funding,

in theory, is equaled by its difficulty in practice." Although persistence has been a problem for performance funding in the past, the predictions this year suggest both stability and growth in the next five years.

Our 1998 survey shows that half of the states have at least one of the two funding programs based on performance. Twenty-one states (42%) currently have performance budgeting. Twenty of these states are considered likely to continue the program and 11 more likely to adopt it in the next five years. If the predictions prove valid, 31 states (62%) would have performance budgeting in the next five years. Performance funding now exists in 13 states (26%). SHEFOs see 12 of them as likely to continue this program, and 12 more as likely to start it. If their forecasts are correct, 24 states (48%) would have performance funding in the next five years. An increasing number of states are adopting both programs. Eight states (16%) currently have both performance funding and performance budgeting in place, and 14 (28%) are considered as likely to have both programs in the next five years. Collectively, the predictions indicate that 35 states, or 70 percent, could have at least one of these programs in place in the next five years.

Our studies do not suggest that performance budgeting or funding will replace traditional budgeting, based largely on current costs and student enrollments. For nearly all of the states, these inputs will remain the dominant factors in budgeting for public colleges and universities. Currently, even performance funding normally allocates a small percent of the state appropriations to public colleges and universities. South Carolina is the sole exception. In this state, legislation mandates 100 percent funding based on performance, although the allocation model and scoring method adopted by its coordinating board will cushion this requirement. What the growth of performance budgeting and funding does show is that coordinating boards and state officials are increasingly accepting the concept that results should count when allocating resources to public colleges and universities.

Table 1. Current Status of Performance Budgeting for Public Higher Education

Year	*Number Percentage*	*States*
1997	16 states, (32%)	Colorado, Florida, Georgia, Hawaii, Idaho, Illinois, Indiana, Iowa, Kansas, Mississippi, Nebraska, North Carolina, Oklahoma, Rhode Island, Texas, West Virginia (revised)
1998	21 states, (42%)	All of the above plus Louisiana, Maine, Oregon, South Dakota, Washington

Table 2. Current Status of Performance Funding for Public Higher Education

Year	*Number Percentage*	*States*
1997	10 states, (20 %)	Colorado, Connecticut, Florida, Kentucky, Minnesota, Missouri, Ohio, South Carolina, Tennessee, Washington
1998	13 states, (26%)	Colorado, Connecticut, Florida, Illinois, Indiana, Louisiana, Missouri, Ohio, Oklahoma, South Carolina, South Dakota, Tennessee, Washington

New Developments

The new programs of performance funding and performance budgeting follow the current trend of deregulation and decentralization in state government. Last year, legislation mandated the programs in 10 of the 16

programs of performance budgeting. Only Texas prescribed the indicators. Of the five programs adopted since the 1997 Survey, legislation mandated only one and prescribed the indicators in none of the states. Performance funding also shows this shift toward decentralization and deregulation. Of the five programs adopted since the 1997 Survey, legislation mandated only one and prescribed the indicators in one of the states. These characteristics differed markedly from the programs in place at the 1997 Survey. Eight of ten states listed in 1997 mandated performance funding and half prescribed the indicators.

The latest efforts also suggest that performance funding programs are becoming less comprehensive and more circumscribed in their goals. Without legislative mandates, coordinating agencies with campus participation prepared more flexible and acceptable programs. Developments in New York may suggest still another shift. The system governing boards have initiated performance funding without a mandate from the state government or the coordinating agency. The Trustees of the City University of New York used campus performance on several indicators to distribute new faculty positions for this year. In addition, the Trustees of the State University of New York have recently approved a new funding model that would allocate up to five percent of campus funding based on performance. When the first and the third largest university systems use or adopt performance funding without a mandate, it is worth watching whether other systems follow their lead.

Conclusions and Possibilities

- Fifty percent of the states currently consider performance in the budgeting of public colleges and universities and this is predicted to rise to 70 percent in the next five years.
- More states are adopting performance budgeting than performance funding.
- The future may see more adoption of both approaches to achieve the advantages and avoid the disadvantages of each program.
- State mandates and prescriptions are declining, allowing coordinating boards, with campus participation, to initiate less ambitious programs that are more acceptable.
- Trustees of some state university systems may follow the lead of SUNY and CUNY in adopting allocation models that anticipate and avoid mandates and prescriptions by state governments or coordinating boards.
- Performance funding is becoming less comprehensive and more circumscribed in its goals.
- Linking state resources to institutional budgets is alive and well, but the nature of that linkage is unclear and unfolding.

Our Second Survey suggests that the interest in funding public higher education for results is growing. But questions remain. Will the link between funding and results be loose or tight? Will the coordinating boards and universities move to make results count in budgeting or wait for state mandates and prescriptions? Finally, is funding for results a fad or trend?

It is still too soon to tell whether funding for results is a fad or trend. But our 1998 survey suggests that the interest in making results count in budgeting for public colleges and universities continues to grow. Thanks to a renewed grant from The Pew Charitable Trusts, we hope to determine by surveys in the next two years whether this growth is only a fad or really a trend.

Note: The full analysis of the 1998 survey results — Joseph C. Burke and Andreea M. Serban, "Current Status and Future Prospects of Performance Funding and Performance Budgeting for Public Higher Education: The Second Survey" – is available through the Public Higher Education Program at the Rockefeller Institute, 411 State Street, Albany, NY 12203-1003, Telephone: 518-443-5835, Fax: 518-443-5845, E-mail: burkejo@rockinst.org

Other Relevant Publications

Joseph C. Burke and Andreea M. Serban (editors and authors). "Performance Funding for Public Higher Education: Fad or Trend?" *New Directions for Institutional Research*, No. 97. San Francisco, CA: Jossey Bass, forthcoming in July 1998.

Andreea M. Serban, Joseph C. Burke. "Meeting the Perfotmance Funding Challenge: A Nine State Comparative Analysis." Forthcoming in September 1998 in *Public Productivity and Management Review*.

Andreea M. Serban. "The Performance Funding Wave: Views of State Policymakers and Campus Leaders." *Assessment Update* 10 (2), 1-2, 10-11, 1998.

Joseph C. Burke. *Performance Funding Indicators: What Do They Say About Concerns, Values, and Models for State Baccalaureate Institutions?* Albany, NY: Rockefeller Institute, 1997.

Joseph C. Burke. *Performance Funding Indicators for Community Colleges: Do They — Should They — Differ from Baccalaureate Institutions?* Albany, NY: Rockefeller Institute, 1997.

Joseph C. Burke, Andreea M. Serban. *State Performance Funding and Budgeting for Public Higher Education: Current Status and Future Prospects*. Albany, NY: Rockefeller Institute, 1997.

Joseph C. Burke, Andreea M. Serban. "Performance Funding of Public Higher Education: Results Should Count." *Rockefeller Reports*. Albany, NY: Rockefeller Institute, 1997.

Joseph C. Burke, Andreea M. Serban. Performance Funding of Public Higher Education: Fashionable Fad or Emerging Trend? *Community College Journal* 68 (3), 26-29, 1997.

OVERVIEW OF THE PUBLIC HIGHER EDUCATION PROGRAM

Purpose

The Rockefeller Institute's Public Higher Education Program seeks practical approaches to the critical issues facing colleges and universities by combining the expertise and effort of practitioners and researchers in higher education with the contributions and concerns of trustees and opinion leaders in government, labor, and business. The Program enlists the major stakeholders in higher education in a common effort to link policy development with pragmatic research, citizen and constituent commitment, and effective implementation. Its goal is to move major policy issues in public higher education from divisive debate to reasoned discussion and, hopefully, to rational resolution.

Program Director

The Director, Dr. Joseph C. Burke, State University Professor of Higher Education Policy and Management and Senior Fellow of the Rockefeller Institute, combines the experiences of teacher, administrator, and researcher. He taught for over ten years at a liberal arts college and an urban university. For twelve years, he served as President of the State University of New York College at Plattsburgh, followed by nine years as Provost and one year as Interim Chancellor of the State University of New York System, the largest single university system in the country. SUNY's 64 campuses comprise the full range of institutional types: graduate, research universities, health science centers, the Land Grant colleges at Cornell, comprehensive and specialized colleges, and community colleges. He was also President of the SUNY Research Foundation, which is the fiscal agent for all sponsored research in SUNY.

Dr. Burke has written and lectured on a wide array of topics in higher education: the role of college and university presidents, system governance, accountability and autonomy in public higher educa-

tion, academic outcomes assessment, performance indicators for reporting and funding, liberal learning, faculty roles and the new technology, and the interrelation of teaching, research, and service.

Areas of Expertise

The Public Higher Education Program has expertise, through professionals at the Rockefeller Institute and outside experts, in the following areas:

- State Policy and Budgeting for Higher Education
- Performance Budgeting and Reporting
- Models and Indicators of Institutional Quality
- Student Outcomes Assessment
- Institutional Accreditation and Self-Study Reports
- Multi-Campus University Systems
- Two- to Four-Year Transfers, Policies and Practices
- College and University Leadership and Governance
- Faculty Workload Policies and Collective Bargaining
- Campus Mission, Planning, and Budgeting
- Administrative Leadership and Organization

The Program has experience with the full range of colleges and universities: community and technical colleges, liberal arts campuses, comprehensive institutions, graduate and research oriented universities, and medical schools.

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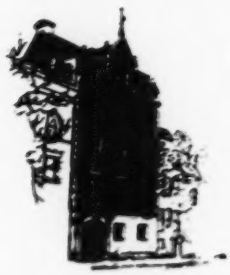

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